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PENSION FACTS

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FOREWORD

Pension Facts is an annual publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

Robert N. Chiappetta, A.S.A.
Director, Information, Reference and
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American Council of Life Insurance

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MAJOR PENSION AND RETIREMENT PROGRAMS IN THE U.S.

Nearly one-half of all workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be over 49 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between persons eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits which generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered until they actually begin receiving benefits.

However, as in the case of life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are those established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, and nonprofit religious, educational and charitable institutions.

The two major types of retirement plans in the U.S. are defined contribution and defined benefit plans. Defined contribution plans provide benefits based solely on the amount contributed to the participant's account including any income, expenses, gains or losses or any forfeitures. Defined contribution plan benefits may be paid as a lump-sum distribution or as an annuity. Under defined benefit plans, the benefits are determined by a formula and are

TABLE 1
NUMBER OF PERSONS COVERED BY MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees**	State and Local Employees	OASI†
1940	695	3,565	1,349	745	1,552	22,900
1945	1,470	5,240	1,846	2,928	2,008	41,070
1950	2,755	7,500	1,881	1,872	2,894	61,506
1955	4,105	12,290	1,876	2,333	3,927	74,887
1960	5,475	17,540	1,654	2,703	5,160	91,496
1961	5,635	18,440	1,662	2,855	5,309	95,643
1962	5,770	19,370	1,643	2,943	5,654	97,440
1963	6,060	19,990	1,664	2,985	5,940	99,320
1964	6,710	20,350	1,650	3,069	6,330	101,167
1965	7,040	21,060	1,661	3,114	6,780	103,827
1966	7,835	21,710	1,666	3,322	7,210	107,438
1967	8,700	22,330	1,641	3,499	7,594	110,746
1968	9,155	22,910	1,625	3,565	8,012	113,804
1969	9,920	24,410	1,620	3,627	8,303	116,904
1970	10,580	25,520	1,633	3,624	8,591	120,014
1971	10,880	26,580	1,578	3,596	9,079	122,735
1972	11,545	27,400	1,575	3,739	9,563	125,549
1973	12,485	28,700	1,582	4,040	9,850	129,045
1974	13,335	29,240	1,588	4,057	10,635	132,583
1975	15,190	30,300*	1,564	4,171	11,230	135,744
1976	16,965	NA	1,572	4,210	12,290	138,633
1977	19,205	NA	1,567	4,292	13,124	141,596
1978	21,615	NA	1,580	4,380	13,540*	144,260
1979	23,460	NA	1,568	4,398	13,700*	147,178

NOTES: It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series.

Private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans.

Data for "Other Private Plans," compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of

funded by contributions established actuarially on the basis of the benefits so determined.

Shortly after the Employee Retirement Income Security Act of 1974 (ERISA) became effective, many small defined benefit plans covered by the Pension Benefit Guaranty Corporation's (PBGC) plan termination insurance program terminated. Terminations peaked in 1976 at 7,949 and reached a low of 4,699 in 1979. Govern-

TABLE 2
POST-ERISA PLAN TERMINATIONS COVERED BY PBGC INSURANCE

Calendar Year	Number of Terminations
1974 (July-Dec.)	644
1975	5,029
1976	7,949
1977	6,437
1978	4,872
1979	4,699

SOURCE: Pension Benefit Guaranty Corporation.

ment studies indicate that the plans were terminated because of ERISA's increased paperwork and cost burdens and other reasons such as adverse economic conditions. Table 2 includes data on corporate employee benefit plans that have terminated since the enactment of ERISA.

deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces and provisions for veterans' pensions are not included.

NA=Not Available.

*Estimated.

**Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Authority Retirement System, the Foreign Service Retirement System, and the Retirement Plan for Employees of the Federal Reserve System, which includes the Bank Plan and the Board of Governors' plan.

†Includes living workers insured for retirement and/or survivors benefits, including the self-employed, plus dependents of retired workers and survivors of deceased workers who are receiving periodic benefits.

SOURCE: Compiled by the American Council of Life Insurance.

TABLE 3
ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES
(Book Values)

(000,000 Omitted)

	Private Plans			Government-Administered Plans			
Year	With Life Insurance Companies	Other Private Plans	Total	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	$ 5,600	$ 6,452	$ 12,052	$2,553	$ 4,343	$ 5,154	$13,721
1960	18,850	33,138	51,988	3,740	10,790	19,600	22,613
1965	27,325	59,185	86,510	3,946	16,516	33,100	19,841
1966	29,425	66,170	95,595	4,074	17,619	36,900	22,308
1967	32,000	74,240	106,240	4,236	18,799	41,500	26,250
1968	34,975	83,072	118,047	4,245	20,224	46,300	28,729
1969	37,900	90,579	128,479	4,347	21,600	51,800	34,182
1970	41,175	97,011	138,186	4,398	23,922	58,200	38,068
1971	46,400	106,419	152,819	4,300	26,532	64,800	40,434
1972	52,300	117,530	169,830	4,100	29,978	73,400	42,775
1973	56,085	126,531	182,616	3,800	32,283	82,700	44,414
1974	60,810	133,731	194,541	3,600	35,366	92,400	45,886
1975	72,210	145,166	217,376	3,100	39,248	103,700	44,342
1976	88,990	160,414	249,404	3,065	44,089	117,300	41,133
1977	101,520	181,509	283,029	2,584	50,832	130,800	35,861
1978	119,110	202,237	321,347	2,787	57,677	142,573	31,746
1979	139,180	223,465	362,645	2,611	65,914	161,649	30,291

NOTE: Some data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plans.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Health and Supplementary Medical Insurance is not included.

SOURCES: Railroad Retirement Board; Social Security Administration, U.S. Department of Health and Human Services; Securities and Exchange Commission; other administrative agencies; and the American Council of Life Insurance.

Government-administered Plans

Government-administered plans, including those for Federal civilian employees, state and local government employees and railroad workers, covered an estimated 19.7 million persons at year-end 1979. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

Tables 1 and 3 show the assets or reserves and the number of persons covered by the major U.S. public and private sector retirement programs.

The most comprehensive government retirement program is the Federal Old-Age, Survivors, and Disability Insurance (OASDI) system, also known as Social Security, a national old-age social insurance program created in 1935. Some 159 million persons had Social Security earnings credits at the end of 1979. Over 134 million of those workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die, the full range of survivor benefits would be available, or if they were then age 62, they would qualify for retirement benefits).

Actuarially-funded retirement systems for civilian employees of the United States government cover 4.4 million persons.

The Railroad Retirement System, the only retirement system administered by the Federal government for a single private industry, covered 1.6 million persons at year-end 1979.

State and local government retirement systems covered 13.7 million persons at the end of 1979.

The Uniformed Services Retirement System for members of the Armed Forces, other than their coverage under Social Security, and provisions for veterans' pensions are not dealt with in this publication. Many factors set these apart from other pension plans; for instance, military pension benefits are paid by Congressional appropriations. Federal civilian employees' plans that are not funded on an actuarial basis are also excluded.

INSURED PENSION PLANS

There were 23.5 million Americans covered by private pension plans administered by U.S. legal reserve life insurance companies at year-end 1979, an increase of 1.8 million over 1978. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached $139.2 billion at year-end 1979, an increase of 17% over year-end 1978 and three and one-half times the amount of pension reserves held 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers, where desirable, can participate in the investment and actuarial experience of the particular contract.

Group Pension Plans

The majority of persons covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of contracts, deposit administration with participation in actuarial, investment or administrative

gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the plan. Normally a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and profit sharing plans are often used by smaller firms. Over 2.0 million persons were covered by such plans at year-end 1979. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) plans. Available for more than 16 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees.

At year-end 1979, H.R. 10 plans with life insurance companies covered 470,000 persons, including 15,000 individuals receiving benefits. Assets of these plans were over $2.3 billion.

Individual Retirement Accounts (IRAs). These are designed for self-employed individuals, persons who do not qualify for a retirement plan at their place of employment, or persons employed for an organization that does not offer a retirement plan. The Appendix beginning on page 00 summarizes the provisions of ERISA and later amendments governing these accounts. At year-end 1979, there were 1,050,000 individuals who had established IRAs with life insurance companies. Most plans were not yet paying benefits, and reserves totaled $2.5 billion.

Table 5 illustrates the dollar amounts held, by institution, for individual retirement accounts (IRAs) and H.R. 10 plans at year-end 1979.

The Internal Revenue Service's analysis of 1978 individual income tax returns shows that 2,388,520 returns claimed contributions to

TABLE 4
PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES IN FORCE AT YEAR-END

Year and Types of Plan	Number of Plans	Number of Persons (in thousands)			Payments into Plans in Year[1] (in millions)	Benefits Paid in Year (in millions)	Reserves (in millions)	
		Not Yet Receiving Pensions	Receiving Pensions	Total			Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	$ 640	NA	$ 4,125	—
Deposit Administration Group Annuity[2]	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other[3]	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	935	$ 80	5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	845	NA	7,925	—
Deposit Administration Group Annuity[2]	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other[3]	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	1,425	180	11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	695	NA	11,675	—
Deposit Administration Group Annuity[2]	3,120	NA	NA	1,835	415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	315	NA	2,175	—
Other[3]	3,170	NA	NA	440	190	NA	1,625	—
Total	32,340	4,935	540	5,475	1,615	390	18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	850	NA	14,225	NA
Deposit Administration Group Annuity[2]	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other[3]	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	2,395	720	27,350	$ 260
1970								
Deferred Group Annuity	10,280	1,437	518	1,955	725	444	12,800	NA
Deposit Administration Group Annuity[2]	15,020	5,577	548	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	101	3,350	NA
Other[3]	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,354	1,226	10,580	3,895	1,330	41,175	4,900

1977								
Group Annuities[4]	64,320	12,035	1,770	13,805	9,850	2,620	77,595	14,140
Terminal Funded Group Plans	3,970	75	95	170	435	175	2,800	60
Individual Policy Pension Trusts[5]	190,040	1,750	105	1,855	1,205	145	6,225	640
H.R. 10 (Keogh) Plans	NA	455	10	465	425	25	1 960	220
Tax-Sheltered Annuities	NA	1,205	30	1,235	1,060	55	5,255	1,110
Individual Retirement Accounts	NA	895	*	895	650	5	1,345	70
Other[3]	NA	710	70	780	915	80	6,340	230
Total	—	17,125	2,080	19,205	14,560	3,105	101,520	16,460
1978								
Group Annuities[4]	76,700	13,700	1,965	15,665	10,960	3,550	91,245	16,920
Terminal Funded Group Plans	4,210	80	120	200	500	200	3,375	60
Individual Policy Pension Trusts[5]	191,740	1,830	125	1,955	1,245	145	6,480	650
H.R. 10 (Keogh) Plans	NA	455	10	465	380	25	2,040	230
Tax-Sheltered Annuities	NA	1,370	30	1,400	1,300	55	6,485	1,160
Individual Retirement Accounts	NA	955	5	960	585	10	1,870	80
Other[3]	NA	885	85	970	1,120	95	7,615	240
Total	—	19,275	2,340	21,615	16,090	4,100	119,110	19,340
1979								
Group Annuities[4]	83,610	15,060	2,025	17,085	12,165	3,715	106,015	21,410
Terminal Funded Group Plans	4,800	80	140	220	390	265	3,825	50
Individual Policy Pension Trusts[5]	200,950	1,870	135	2,005	1,200	165	7,090	650
H.R. 10 (Keogh) Plans	NA	455	15	470	355	30	2,320	270
Tax-Sheltered Annuities	NA	1,600	40	1,640	1,605	60	8,355	1,390
Individual Retirement Accounts	NA	1,045	5	1,050	630	15	2,465	90
Other[3]	NA	900	90	990	1,555	100	9,110	250
Total	—	21,010	2,450	23,460	17,900	4,350	139,180	24,110

NOTE: Some data are revised.
NA = Not Available.
*Fewer than 2,500.
[1]"Payments into Plans in Year" are incurred premiums after deducting withdrawal credits.
[2]Includes Immediate Participation Guarantee.
[3]Includes data on H.R. 10 plans and tax-sheltered annuities through 1972 and individual annuity plans, certain profit-sharing plans and miscellaneous plans not readily available.
[4]Includes Immediate Participation Guarantee and Deposit Administration plans.
[5]Includes Group Permanent plans and profit-sharing trusts.
SOURCE: American Council of Life Insurance.

TABLE 5
OUTSTANDING AMOUNTS IN IRA'S AND KEOGH PLANS WITH SELECTED FINANCIAL INSTITUTIONS, YEAR-END

(000,000 Omitted)

	IRA Accounts		Keogh Plans		Total		Percent of Total	
Institution	1978	1979	1978	1979	1978	1979	1978	1979
Life Insurance Companies	$1,870	$2,465	$2,040	$2,320	$ 3,910	$4,785	21.3%	19.3%
Mutual Funds	293	453	2,162	2,791	2,455	3,244	13.3	13.1
U.S. Treasury Retirement	39	43	160	167	199	210	1.1	.8
Commercial Banks*	NA	NA	NA	NA	3,360	4,900**	18.3	19.8
Mutual Savings Banks	1,449	2,031	786	1,025	2,235	3,056	12.1	12.3
Savings & Loan Associations	4,330**	6,100**	1,910**	2,500**	6,240**	8,600	33.9	34.7
Total	NA	NA	NA	NA	$18,399	$24,795	100.0%	100.0%

NA = Not Available.

*Includes only IRA and Keogh Plan time deposits with original maturities of three years or more.

**Estimated.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks and Federal Home Loan Bank Board.

Individual Retirement Accounts, and the total amount contributed was nearly $3.0 billion. Almost $2.0 billion in H.R. 10 contributions were reported on 627,900 returns.

The Revenue Act of 1978 liberalized and simplified tax rules for IRAs, including an increase in the IRA contribution limit for employee IRAs (see Appendix). The deadline for establishing and making contributions to IRA plans was extended, penalties for overcontributing to plans were eased, as were rollover provisions.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered $8.4 billion in the assets of tax-sheltered annuities in 1979. These plans covered 1.6 million persons, including 40,000 annuitants in 1979.

Funding Options

Pension plans can be funded in many ways. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—

all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, or variable rate of interest and benefit payments. In the latter, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts (see page 16). In 1979, there were 50,030 group pension funds providing variable annuity payouts according to an equity fund index (Table 6). Other indices were used in 10 group variable plans with indices relating to such bases as changes in the cost of living.

Yet another way of describing annuities is by the conditions specified for paying benefits: the number of lives covered (individual, joint and survivor, and joint life); disposition of the proceeds (life annuity, life annuity with a period certain, temporary, etc.); and the date the benefits begin (immediate, deferred).

"The Language of Pensions" section, which begins on page 56 includes many of these definitions.

TABLE 6
VARIABLE ANNUITY PLANS IN THE UNITED STATES 1979

(Dollar Amounts in Thousands)

	Group Plans			Individual Plans (Equity Fund Index)	Total Group and Individual
	Equity Fund Index	Other Indices	Total Group		
IN FORCE YEAR-END 1979					
No. of Plans	50,030	10	50,040	—	—
No. of Persons	1,209,950	73,900	1,283,850	720,440	2,004,290
Reserves					
Variable	$2,512,630	$395,540	$2,908,170	$1,987,710	$ 4,895,880
Other	4,702,040	211,150	4,913,190	1,998,860	6,912,050
Total	$7,214,670	$606,690	$7,821,360	$3,986,570	$11,807,930
CONSIDERATIONS IN 1979					
Variable	$ 303,420	$ 31,620	$ 335,040	$ 266,560	$ 601,600
Other	976,740	16,740	993,480	320,100	1,313,580
Total	$1,280,160	$ 48,360	$1,328,520	$ 586,660	$ 1,915,180
VARIABLE ANNUITIES IN COURSE OF PAYMENT — 1979					
No. of Persons Receiving Payments Year-End 1979	15,660	9,660	25,320	9,710	35,030
Annualized Income					
Variable	$ 16,700	$ 22,910	$ 39,610	$ 4,800	$ 44,410
Fixed	101,150	23,010	124,160	8,260	132,420
Total	$ 117,850	$ 45,920	$ 163,770	$ 13,060	$ 176,830

NOTE: The table includes variable and fixed data on plans which provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans which provide an option for a variable annuity payout at retirement are not included. For 1979 there were 500 such groups covering 93,800 persons, and 3,580 individual plans.

SOURCE: American Council of Life Insurance.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the company. Maturities generally range from five to 20 years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans interested in minimizing investment risk.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of restrictions in state laws on the amount of assets life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are not subject to the same investment limitations as the companies' general

TABLE 7
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS

Separate Accounts Used Solely for:	December 31, 1978				December 31, 1979			
	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Group Pension Contracts	68	306	20,280	$17,149	73	319	17,100	$21,980
Individual Variable Annuity Contracts	33	80	394,895	1,118	33	85	204,258	1,050
Individual Variable Life Insurance	2	2	8,057	4	3	3	18,425	15
Mixed Purposes	25	54	543,414	1,420	28	9,616	604,824	2,197
Total	93*	442	966,646	$19,691	99*	10,023	844,607	$25,242

*Details do not add due to companies having more than one type of separate account.

NOTE: Data represent 99% of total life insurance company separate account assets as of December 31, 1979.

SOURCE: American Council of Life Insurance.

accounts. Life insurance companies can invest up to 100% of separate account assets in common stocks, while the general accounts are limited to holding only a small fraction of assets in common stock. By year-end 1979, 125 U.S. life insurance companies had established separate accounts.

In 1979, $24.1 billion of pension assets were held in separate accounts, about 17% of total pension assets. Separate account assets at year-end 1979 were almost entirely pension assets.

A survey of separate account assets at year-end 1979 (Tables 7 and 8), representing 99 companies and 99% of total separate account assets, showed that 87% of the assets in these separate accounts were used solely for group pension contracts. Further, 51% of these group pension contract assets were invested solely or primarily in common stocks.

TABLE 8
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS USED SOLELY FOR GROUP PENSION CONTRACTS

	December 31, 1978			December 31, 1979		
Invested Primarily In:	Number of Accounts	Number of Contracts Partici-pating in Accounts	Assets Held (Millions)	Number of Accounts	Number of Contracts Partici-pating in Accounts	Assets Held (Millions)
Common stocks	171	13,064	$10,295	164	12,457	$11,187
Publicly traded bonds	32	604	895	35	658	1,202
Private placement debt	10	348	1,081	15	462	1,281
Real property	5	155	1,067	6	261	1,701
Real estate mortgages	2	53	23	3	69	65
Short term investments	14	520	728	18	766	1,215
Other	31	5,470	1,467	35	2,218	2,962
Total	265	20,214	15,556	276	16,891	19,613
Mixed portfolio, common stocks and publicly traded bonds	34	241	899	34	339	1,047
Publicly traded bonds and private placement debt	2	3	7	3	8	7
Real property and real estate mortgages	3	156	531	3	234	1,123
Other	2	3	156	3	4	190
Total	41	403	1,593	43	585	2,367
GRAND TOTAL	306	20,617*	$17,149	319	17,476*	$21,980

*Totals differ from those shown in Table 7 due to contracts participating in more than one account.

SOURCE: American Council of Life Insurance.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those administered by life insurance companies represent the oldest type of industrial retirement planning in the United States. Assets amounted to $223.5 billion at the end of 1979.

Private retirement plans in this category are generally trusteed pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trusteed plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, pattern type plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds, and the Federal government, which operates not only the Social Security system but retirement plans for civilian and military Federal Government employees and railroad employees. ERISA covers only private plans but required a congressional study of government pension plans. Some of the findings of that study as well as other ongoing studies that affect governmental retirement plans are discussed in this chapter.

Social Security System

Social Security, the largest social and economic program of the Federal government, is financed through a wage-base system of calculating employer-employee contributed taxes to provide benefit payments to retired and disabled persons, their dependents and survivors. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes are paid into the Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds at equal rates for employers and their employees. The tax rate for self-employed persons is nearly one and one-half times the employee rate. Some 159 million persons had Social Security earnings credits at the end of 1979. Of these, 134 million had been in the program long enough to be fully insured for OASI.

A total of $103.0 billion in Social Security taxes (excluding Medicare) was paid in 1979, including $49.5 billion by employers, $49.1 billion by employees and $4.4 billion by self-employed persons. Combined assets of the Social Security trust funds for cash benefits totaled $30.3 billion at year-end 1979.

For 1979, Social Security payments amounted to $133.6 billion, including Medicare payments. Table 12 refers only to the retirement portion and the disability provisions.

In 1977, the Congress approved legislation known as the Social Security Amendments of 1977. It was designed to bolster the system's trust funds because reports since the early 1970s indicated the program was being underfinanced. Short-term as well as long-term actuarial deficits were forecast.

TABLE 9
PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH LIFE INSURANCE COMPANIES

(in Millions)

Calendar Year	Number of Persons			Contributions in Year*			Benefits Paid in Year**	Assets
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total		
1930	NA	NA	2.70	NA	NA	—	NA	$ 700
1935	NA	NA	2.53	NA	NA	—	NA	950
1940	3.44	.13	3.57	NA	NA	—	NA	1,400
1945	4.99	.25	5.24	NA	NA	—	NA	2,850
1950	7.20	.30	7.50	$ 1,030	$ 130	$ 1,160	$ 290	6,452
1955	11.60	.69	12.29	2,180	280	2,460	670	16,141
1960	16.30	1.24	17.54	3,520	480	4,000	1,330	33,138
1965	19.10	1.96	21.06	5,600	670	6,270	2,800	59,185
1970	22.00	3.52	25.52	9,720	1,070	10,790	6,030	97,011
1971	22.70	3.88	26.58	11,320	1,120	12,440	7,080	106,419
1972	23.20	4.20	27.40	12,740	1,200	13,940	8,300	117,530
1973	24.10	4.60	28.70	14,370	1,270	15,640	9,310	126,531
1974	24.40	4.84	29.24	16,970	1,460	18,430	10,740	133,731
1975	24.90	5.40	30.30	19,830	1,600	21,430	12,330	145,166
1976	NA	NA	—	NA	NA	—	NA	160,414
1977	NA	NA	—	NA	NA	—	NA	181,509
1978	NA	NA	—	NA	NA	—	NA	202,237
1979	NA	NA	—	NA	NA	—	NA	223,465

NOTE: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication. A survey by the Social Security Administration indicates there were 27,500,000 unduplicated number of persons covered by all private plans, insured and uninsured, and not yet receiving pensions at year-end 1972.

NA = Not Available. Due to changes in reporting requirements, most data for 1976 to 1979 are not yet available. They will be reported in subsequent editions of *Pension Facts* when they become available from the U.S. Department of Labor.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCES: Social Security Administration, U.S. Department of Health and Human Services, and Securities and Exchange Commission.

TABLE 10
DISTRIBUTION OF ASSETS OF NONINSURED PENSION FUNDS
BOOK VALUE END OF YEAR

(000,000 Omitted)

Calendar Year	U.S. Government Securities	Corporate and Other Bonds	Stocks		Mortgages	Cash and Deposit	Other	Total
			Preferred	Common				
1950	$ 1,966	$ 2,828	$ 304	$ 802	$ 102	$ 264	$ 186	$ 6,452
1955	2,992	7,856	612	3,354	321	415	591	16,141
1960	2,683	15,699	776	10,734	1,301	546	1,399	33,138
1961	2,715	16,882	762	13,342	1,560	660	1,590	37,511
1962	2,925	18,101	750	15,728	1,876	707	1,805	41,892
1963	3,049	19,560	712	18,118	2,220	773	2,122	46,554
1964	3,193	21,418	650	20,953	2,778	890	2,537	52,419
1965	2,994	23,129	750	25,117	3,385	940	2,870	59,185
1966	2,751	25,231	790	29,067	3,911	900	3,520	66,170
1967	2,324	26,355	980	34,946	4,083	1,320	4,232	74,240
1968	2,756	27,000	1,332	41,740	4,067	1,592	4,585	83,072
1969	2,792	27,613	1,757	47,862	4,216	1,619	4,720	90,579
1970	3,029	29,666	1,736	51,744	4,172	1,804	4,860	97,011
1971	2,732	29,013	1,767	62,780	3,660	1,641	4,826	106,419
1972	3,689	28,207	1,481	74,585	2,728	1,857	4,983	117,530
1973	4,404	30,334	1,258	80,593	2,377	2,336	5,229	126,531
1974	5,533	35,029	1,129	79,319	2,372	4,286	6,063	133,731
1975	10,764	37,809	1,188	83,654	2,383	2,962	6,406	145,166
1976	14,713	39,070	1,250	93,359	2,369	2,199	7,454	160,414
1977	20,138	45,580	1,168	96,984	2,497	3,721	11,421	181,509
1978	19,695	53,824	1,274	100,424	2,789	8,110	16,121	202,237
1979	22,459	59,537	1,350	110,943	3,091	8,609	17,476	223,465

SOURCE: U.S. Securities and Exchange Commission.

The system's financing problems have been attributed to the current economic situation, evolving demographic changes and the effect of automatic cost-of-living benefit provisions that existed prior to the 1977 law. The 1977 Amendments were designed to correct the system's short-range financing problems and some of the long-range problems by increasing tax revenues through a payroll tax and by more equitably adjusting Social Security benefits for inflation. The 1977 law included some increases in Social Security benefits and also increased the annual amount of earnings a beneficiary age 65 or older could have without reduction of Social Security benefits. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be reduced or stopped because of remarriage. To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

The U.S. Social Security system has undergone many functional changes since Congress passed the Social Security Act in 1935. The early program was concerned with building up reserves and was based on the concept of wage-related benefits jointly financed by private sector employers and employees. It was designed to provide a floor of economic protection for elderly persons without making the benefits so high that private employer-employee plans, personal savings, insurance and investments would be discouraged.

Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine of ten employed persons are presently covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), Federal employees under any Federal retirement system, certain employees of state and local governments, nonprofit groups (whose coverage is optional), irregularly employed farm and domestic workers and low income, self-employed persons. Retirement benefits under Social Security are payable according to law, upon actual retirement at or after age 62 (benefits are reduced for retirement prior to 65) and after a service requirement is met. When the program was first created, some social-adequacy types of payments were included. Subsequent changes expanded the system so that it provides minimum benefits and dependents' and survivors' benefits with only incidental relation to the earnings on which taxes were paid. The benefit formulas have always been weighted toward lower-paid employees.

The 1977 modification to correct the automatic inflation adjustment in the benefit formula eliminated about half the projected

long-term actuarial deficit. Attention is focused on the projected demographic trend of rising numbers of older people qualifying for Social Security benefits in relation to a relatively smaller work force that will have to bear the cost of financing their benefits. The system's financing and benefit structure affects the private pension system as well as public sector plans.

The Federal government has established four study groups to examine Social Security and retirement issues. These groups include the Quadrennial Social Security Advisory Council, the National Commission on Social Security, the Universal Social Security Study Group, and the President's Commission on Pension Policy which has a wide-ranging mandate to examine both private and public pension issues. Recent reports of these groups are summarized in the chapter beginning on page 38.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the Federal government and its instrumentalities for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System, the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

The largest is the U.S. Civil Service Retirement System which, with 2.7 million active workers on its rolls at year-end 1979, provided benefit payments in 1979 of $12.2 billion to 1.6 million retired workers and their survivors and dependents, and had accumulated assets of $64.3 billion. Employer and employee contributions totaled $16.3 billion in 1979. The share of the employer (the Federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets. The Congressional Budget Office estimates indicate that the Civil Service Retirement Fund's unfunded liability could reach $130.8 billion by fiscal 1980 and $160.1 billion by 1984.

The Federal civilian retirement system operates independent of the Social Security system. As a consequence, the pension benefits for Federal plans, which are financed in part by employee contributions and provide for cost-of-living adjustments, are set higher than if they were integrated with Social Security. However, the Civil Service system's current retirement program also includes provisions that

encourage Federal employees to retire at a much earlier age than private sector employees. As a result, many Federal Civil Service retirees are also able to qualify for Social Security benefits. In one recent year, 67% of all civil service annuitants age 65 and over were also receiving Social Security benefits.

However, the majority of these retirees become eligible for OASDI benefits through pre-government employment rather than through employment after government retirement. Social Security Administration statistics also show that by December 31, 1975, 98.5% of Federal government workers in positions covered by the Civil Service Retirement System had had some employment under OASDI. Seventy-six percent had enough OASDI-covered employment to qualify for survivor benefits and 40 percent had enough to guarantee themselves eligibility for retirement benefits after age 62. In a study eight years earlier, the comparable percentages were 95% for some OASDI-covered employment, 68% for survivor benefits and 33% for retirement benefits.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the Federal government that covers a single industry. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1979, the Railroad Retirement system covered 546,000 workers and in 1979 paid retirement benefits of $2.6 billion to 455,000 age, service and disability annuitants. In addition, $1.8 billion was paid to some 567,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

TABLE 11
THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM
(in Millions)

Year	Estimated Number of Persons (End of Year)		Assets† (End of Year) (Trust Funds)	Contributions During Year*			
	Persons with Wage Credits**	Persons Insured for Retirement Benefits		Employer	Employee	Self-Employed	Total
1940	44.8	24.9	$ 2,031	$ 319	$ 319	—	$ 638
1945	72.4	40.3	7,121	643	643	—	1,285
1950	82.7	59.8	13,721	1,334	1,334	—	2,667
1955	98.6	71.4	21,663	2,730	2,664	$ 319	5,713
1960	109.4	85.4	22,613	5,632	5,543	701	11,876
1965	121.3	95.8	19,841	8,183	7,991	1,032	17,205
1970	135.9	109.8	38,068	16,600	16,336	1,800	34,736
1971	138.2	112.3	40,433	18,488	18,051	1,804	38,343
1972	140.6	114.9	42,775	20,800	20,288	1,800	42,888
1973	142.9	118.1	44,414	25,100	24,207	2,600	51,907
1974	145.2	121.6	45,886	28,311	27,896	2,699	58,906
1975	148.3	124.6	44,342	30,746	30,477	3,036	64,259
1976	150.9	127.4	41,133	34,381	34,080	3,133	71,594
1977	154.0	130.2	35,861	37,724	37,439	3,547	78,710
1978	156.8	132.9	31,746	42,745	42,371	3,768	88,884
1979	159.2	135.8	30,291	49,545	49,084	4,404	103,033

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 12
PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired Workers and Survivors of Deceased Workers		Total	
	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)
1940	112	$ 15	100	$ 20	212	$ 35
1945	518	126	770	148	1,288	274
1950	1,771	557	1,706	404	3,477	961
1955	4,474	3,253	3,487	1,715	7,961	4,968
1960	8,517	7,542	6,328	3,703	14,845	11,245
1965	12,089	12,230	8,778	6,081	20,867	18,311
1970	14,845	21,191	11,390	10,379	26,235	31,570
1971	15,575	24,616	11,717	12,249	27,292	36,865
1972	16,388	25,687	12,088	12,578	28,476	38,265
1973	17,382	31,728	12,486	15,200	29,868	46,928
1974	18,195	39,029	12,659	19,492	30,854	58,521
1975	19,077	45,002	13,008	21,921	32,085	66,923
1976	19,836	51,247	13,188	24,418	33,024	75,665
1977	20,667	57,540	13,416	26,986	34,083	84,526
1978	21,238	63,711	13,349	29,154	34,587	92,865
1979	21,840	71,840	13,285	32,424	35,125	104,264

*Benefits include monthly pensions and other payments, and lump sum payments.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 13
FEDERAL CIVILIAN RETIREMENT SYSTEMS
(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets and Reserves
	Not Yet Receiving Benefits	Receiving Benefits: Retired or Disabled	Receiving Benefits: Survivors, Dependents	Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	
1950											
Federal Civil Service	1,670	154	18	1,842	$ 307	$ 370	$ 677	$ 176	$ 8	$ 184	$ 4,202
Federal Reserve Board†	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	*	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	*	-	9	2	2	4	**	-	*	27
Total	1,699	155	18	1,872	316	377	693	178	8	186	4,344
1960											
Federal Civil Service	2,154	361	150	2,665	823	787	1,610	700	105	805	10,480
Federal Reserve Board†	20	3	*	23	9	3	12	5	**	5	178
Foreign Service	4	*	*	4	2	2	4	3	**	3	29
Tennessee Valley Authority	10	1	*	11	5	3	8	1	**	1	103
Total	2,188	365	150	2,703	839	795	1,634	709	105	814	10,790
1970											
Federal Civil Service	2,612	662	297	3,571	2,001	1,869	3,870	2,368	429	2,797	23,294
Federal Reserve Board	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	*	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	-	15	12	3	15	7	1	8	226
Total	2,654	672	298	3,624	2,041	1,880	3,921	2,406	432	2,838	23,922
1972											
Federal Civil Service	2,588	758	333	3,679	3,206	2,073	5,279	3,361	585	3,946	29,200
Federal Reserve Board	25	6	1	32	10	1	11	16	2	18	457
Foreign Service	9	2	*	11	11	8	19	25	2	27	59
Tennessee Valley Authority	14	3	*	17	17	4	21	10	1	11	262
Total	2,636	769	334	3,739	3,244	2,086	5,330	3,412	590	4,002	29,978
1973											
Federal Civil Service	2,782	844	349	3,975	3,901	2,140	6,041	4,146	642	4,788	31,500
Federal Reserve Board	27	6	1	34	12	1	13	19	2	21	427
Foreign Service	9	3	*	12	20	9	29	31	2	33	66
Tennessee Valley Authority	15	3	1	19	19	4	23	11	**	11	288
Total	2,833	856	351	4,040	3,952	2,154	6,106	4,207	646	4,853	32,283

1974											
Federal Civil Service	2,683	939	368	3,990	4,817	2,332	7,149	5,276	785	6,061	34,600
Federal Reserve Board	28	6	1	35	12	1	13	23	2	25	359
Foreign Service	9	3	1	13	30	11	41	42	2	44	104
Tennessee Valley Authority	15	3	1	19	18	4	22	13	1	14	303
Total	2,735	951	371	4,057	4,877	2,348	7,225	5,354	740	6,144	35,366
1975											
Federal Civil Service	2,730	990	382	4,102	6,707	2,534	9,241	6,052	908	6,960	38,351
Federal Reserve Board	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2,782	1,004	385	4,171	6,786	2,553	9,339	6,141	915	7,056	39,248
1976											
Federal Civil Service	2,707	1,038	394	4,139	7,877	2,780	10,657	7,098	1,077	8,175	43,063
Federal Reserve Board	26	6	1	33	36	2	38	26	3	29	494
Foreign Service	10	4	1	15	17	14	31	77	6	83	184
Tennessee Valley Authority	18	4	1	23	25	7	32	18	2	20	348
Total	2,761	1,052	397	4,210	7,955	2,803	10,758	7,219	1,088	8,307	44,089
1977											
Federal Civil Service	2,716	1,097	406	4,219	9,337	2,931	12,268	8,143	1,238	9,381	49,687
Federal Reserve Board	25	7	1	33	44	2	46	29	3	32	495
Foreign Service	10	4	1	15	31	17	48	76	6	82	268
Tennessee Valley Authority	20	4	1	25	30	9	39	20	2	22	382
Total	2,771	1,112	409	4,292	9,442	2,959	12,401	8,268	1,249	9,517	50,832
1978											
Federal Civil Service	2,737	1,148	416	4,301	11,035	3,194	14,229	9,246	1,423	10,669	56,323
Federal Reserve Board	25	7	1	33	49	2	51	31	3	34	550
Foreign Service	10	6	1	17	27	19	46	87	6	93	374
Tennessee Valley Authority	24	4	1	29	38	12	50	23	2	25	430
Total	2,796	1,165	419	4,380	11,149	3,227	14,376	9,387	1,434	10,821	57,677
1979											
Federal Civil Service	2,700	1,190	427	4,317	12,865	3,447	16,312	10,571	1,618	12,189	64,276
Federal Reserve Board	25	7	1	33	53	2	55	33	3	36	652
Foreign Service	10	6	1	17	25	20	45	120	7	127	493
Tennessee Valley Authority	25	5	1	31	49	15	64	25	3	28	493
Total	2,760	1,208	430	4,398	12,992	3,484	16,476	10,749	1,631	12,380	65,914

NOTE: Details may not add to totals due to rounding. Data for Federal Reserve Board are for calendar years. Data for all other plans are for fiscal years.

*Less than 500.

**Less than $500,000.

†Prior to 1970, data include Federal Reserve Bank Plan, which is now noncontributory.

SOURCES: U.S. Office of Personnel Management (formerly U.S. Civil Service Commission); Retirement System of the Federal Reserve Board; U.S. Department of State; and George B. Buck Consulting Actuaries.

TABLE 14
RAILROAD RETIREMENT SYSTEM
(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	Assets
1930	*	*	-	1,400	$ 30	-	$ 30	NA	-	NA	-
1940	1,205	141	3	1,349	65	$ 65	130	$ 114	-	$ 114	$ 136
1950	1,494	251	136	1,881	273	273	546	254	NA	NA	2,553
1960	862	384	408	1,654	298	298	596	626	$ 336	962	3,740
1970	650	444	539	1,633	493	467	960	1,108	663	1,771	4,398
1971	595	440	543	1,578	475	450	925	1,200	802	2,002	4,300
1972	586	447	542	1,575	525	475	1,000	1,350	825	2,175	4,100
1973	589	443	550	1,582	540	500	1,040	1,550	1,015	2,565	3,800
1974	585	457	546**	1,588	1,201	421	1,622	1,710	1,098	2,808	3,600
1975	532	469	563**	1,564	1,209	423	1,632	1,970	1,313	3,283	3,100
1976	541	466	565**	1,572	1,325	465	1,790	2,102	1,469	3,571	3,065
1977	534	464	569**	1,567	1,457	507	1,964	2,245	1,579	3,824	2,584
1978	553	459	568**	1,580	1,520	546	2,066	2,353	1,668	4,021	2,787
1979	546	455	567**	1,568	1,732	682	2,414	2,552	1,810	4,362	2,611

NA = Not Available.

*Not available separately.

**Figure includes employee annuitants also receiving benefits as dependents of survivors.

SOURCE: U.S. Railroad Retirement Board.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters and other employees of state, county and city governments. In 1979, such government pension plans paid $10.8 billion in benefits to an estimated 2.3 million retired workers and their survivors and dependents. Assets held by these systems totaled $161.6 billion at year-end 1979. Employers and employees contributed $21.4 billion to the plans, with employers paying 71.6%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About 72% of all state and local employees have Social Security; the majority are also covered by their own pension plans.

One problem with elective Social Security coverage for state and local government employees is that several states have benefits formulas that are not properly coordinated with Social Security. Benefits have increased so much that, combined with other retirement benefits, a retired public employee could receive a retirement income above the salary that employee was earning prior to retirement.

Many proposals have been made recently to improve Federal, state and local government pension plans, particularly with regard to their reporting, disclosure of operations and funding practices. The Congressional study mandated by ERISA found that funding schedules for these plans were often inadequate. The study recommended Federal regulation of public pension plans in a form similar to that of ERISA. Legislation has been introduced in this area and the relationship among Social Security, public and private pension plans is being studied by such groups as the President's Commission on Pension Policy.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries and pension fund assets were about $10 million.

In 1930, some 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled $90 million, and reserves amounted to $800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the Federally-administered Railroad Retirement system was established.) Contributions to all private pension plans (other than those for railroad workers) were $200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the Federal Social Security program in 1935 made retirement planning more widely applicable on a national scale. By 1940, more than 4

million active workers participated in private pension plans, with 160,000 retired workers receiving annual benefit payments of $140 million. Reserves totaled $2.4 billion. Contributions to all private pension plans exceeded $300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the deduction of employer pension contributions from the taxable income of employers were significant incentives for the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus was the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants from 1940 to 1945. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950, reserves of private plans reached nearly $12 billion, and benefit payments totaled $370 million. Annual contributions to private plans exceeded $2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was largely attributable to the fact that many plans adopted during World War II, and most pension plans agreed to by collective bargaining, were noncontributory.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was

increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence.

The greatest growth in private pension plans in terms of coverage, contributions, beneficiaries, benefit payments and assets occurred in the 1950s. Private plans covered 20.5 million persons and annual contributions reached $5.5 billion by year-end 1960. Reserves increased to $52 billion, and benefit payments totaled $1.7 billion.

The growth in contributions and benefits under private retirement plans slowed during the 1960s, and much of the growth that occurred was due to inflation. At year-end 1970, 30.8 million persons were covered by private pension plans, and contributions were $14 billion. Benefit payments amounted to $7.4 billion, and reserves reached $137 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, more than 3.9 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 6.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.5 million active workers were covered by private pension plans, and contributions were about $32.2 billion. From 1970 to 1975, benefit payments more than doubled to $14.9 billion, and reserves increased by 57% to $217.4 billion.

Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have more than doubled since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

1857 New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.

1875 First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.

1880 First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

1892 Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.

1893 First pension plan for public school teachers was established in Chicago.

1901 Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.

1903 Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.

1905 First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.

1905 Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.

1907 The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.

1920 The Federal Civil Service Retirement and Disability Fund was created by Congress.

1921 First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.

1921 Revenue Act of 1921 made employer contributions to profit-sharing trusts tax-exempt. Provisions were extended to pension trusts in 1926.

1935 Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.

1935 Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1974, to provide supplemental security income benefits to persons 65 or older, blind, disabled, with little or no income; in 1977 to increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

1949 The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.

1949 The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.

1952 College Retirement Equities Fund (CREF) was established as the first variable annuity fund.

1958 Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the Federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.

1958 A provision for U.S. Presidents' retirement benefits and widows of U.S. Presidents benefits was established as part of the U.S. Code.

1959 Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.

1962 H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act) and was subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.

Early 1960s Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.

1963-1964 The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.

1965 The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

1974 The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.

1978 The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for Federal employees.

PENSION TOPICS OF CURRENT INTEREST

During 1980, six major reports on various aspects of the public and private pension systems in the U.S. were released.

The President's Commission on Pension Policy, after issuing 14 working papers since its inception in 1978 (listed on page 67), released its first Interim Report in May 1980 and a second Interim Report in November 1980.

As part of its May 1979 Current Population Survey (CPS), the Bureau of the Census conducted a special supplemental survey of public and private retirement plan coverage and vesting status of employed workers. The results of the survey as they relate to the coverage status of full-time private workers were released in August 1980. Data relating to coverage of public-sector employees is still being analyzed.

The remaining three reports deal primarily with the Social Security System. The Universal Social Security coverage Group submitted its report to the President and Congress early in 1980. The report examined the desirability and feasibility of extending Social Security coverage to all Federal, state and local employees and presented specific alternatives to the existing system, but did not recommend any changes.

Late in 1979 the fifth Advisory Council on Social Security (the Council meets every four years at the direction of the Secretary of Health and Human Services) issued its 1979 report. The report's recommendations addressed the areas of the financing and benefit structure of Social Security, the treatment of women and families under Social Security, the question of mandatory Social Security coverage and various aspects of the Disability Income and Supplemental Security Income programs.

The other major Social Security study, prepared for the National Commission on Social Security, reported the findings of a national survey on attitudes toward Social Security.

The findings presented in each of these six reports are summarized in the following pages. Complete references for each report are included in the bibliography that begins on page 62.

An Interim Report: President's Commission on Pension Policy (May 1980)

In 1978, the Congress authorized the President's Commission on Pension Policy to undertake a two-year study of the nation's retirement income system and policies. The Commission's first interim report was issued in May 1980. The final report is expected in February 1981.

The recommendations in the first interim report are based on extensive hearings, discussions and research (see list of working papers on page 67). The Commission emphasizes that the recommendations in the final report may differ somewhat from those in the interim report.

The report establishes broad, long-range policy objectives that define the focus of the Commission in its remaining months as it undertakes future staff studies and working papers. The following are the specific areas addressed in the first interim report together with the conditional recommendations of the Commission.

The Retirement Income System. The U.S. retirement system has grown from a number of individual programs to the present complex system. Despite this, over 3 million persons age 65 and over were living in poverty in 1977—14% of the retired population. Eighty percent of these were receiving Social Security.

The Commission recommends that top priority be given to providing a balanced program of employee pensions, social security, and retirement savings programs to all workers.

Total retirement, disability and survivors' benefits have grown from 2% of the GNP in 1950 to over 8% in 1975. Federal benefits have grown from 27% of all retirement programs in 1950 to 76.2% in 1976. Forty-nine percent of workers in the private sector are covered by pension plans. The young, women, and workers in small operations (fewer than 500 employees) are underrepresented among those workers who are covered by pension plans.

The Commission cites the need for an effective national program to protect against prolonged high rates of inflation with which private pension programs alone can't deal.

The Commission recommends the establishment of a universal minimum advance-funded pension system, an advance-funded tier of Social Security that would permit contracting out to private pension plans that wanted to meet its standards or would function as a universal employee pension system with a central clearinghouse. The Commission also recommends encouraging savings through tax incentives, shortening vesting requirements, and encouraging work opportunities for older workers.

TABLE 15
STATE AND LOCAL GOVERNMENT RETIREMENT PLANS

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1950	2,600	254	40	2,894	$ 510	$ 395	$ 905	$ 274	$ 26	$ 300	$ 5,154
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015	19,600
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120	50,200
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620	64,800
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335	73,400
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075	82,700
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835	92,400
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725	103,700
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700	117,300
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455	130,800
1978	11,300*	2,050*	190*	13,540*	13,621	5,688	19,309	9,000*	550*	9,550	142,600
1979	11,400*	2,100*	200*	13,700*	15,336	6,069	21,405	10,150	620	10,770	161,650

NOTE: Some data are revised. Beneficiaries are as of June 30. Financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter.

*Estimated.

SOURCES: U.S. Bureau of the Census, U.S. Department of Commerce; and U.S. Securities and Exchange Commission.

TABLE 16
RETIREMENT INCOME EQUIVALENT TO PRERETIREMENT INCOME FOR SINGLE PERSONS AND MARRIED COUPLES RETIRING IN 1980

(Selected Income Levels)

Gross Pre-Retirement Income	Preretirement Taxes		Disposable Income	Work Related Expenses[3]	Savings & Investments		Net Pre-retirement Income	Post Retirement Taxes[4]		Equivalent Retirement Income	
	Federal[1]	State & Local[2]						Federal Income	State & Local	Dollars	Ratio
Single Persons											
$ 6,500	$ 906	$ 97	$ 5,497	$ 330	0%	$ 0	$ 5,167	$ 0	$ 0	$ 5,167	.79
10,000	1,785	223	7,992	480	3	240	7,272	0	0	7,272	.73
15,000	3,259	444	11,297	677	6	678	9,941	0	0	9,941	.66
20,000	4,055	728	14,217	853	9	1,280	12,084	166	32	12,282	.61
30,000	8,926	1,429	19,645	1,179	12	2,357	16,109	1,077	205	17,391	.58
50,000	18,921	3,328	27,751	1,665	15	4,163	21,923	3,153	599	25,675	.51
Married Couples											
$ 6,500	$ 549	$ 29	$ 5,922	$ 355	0%	$ 0	$ 5,567	$ 0	$ 0	$ 5,576	.86
10,000	1,311	133	8,556	513	3	251	7,786	0	0	7,786	.78
15,000	2,550	310	12,140	728	6	728	10,684	0	0	10,684	.71
20,000	3,968	520	15,512	931	9	1,396	13,185	0	0	13,185	.66
30,000	6,986	1,061	21,950	1,317	12	2,634	17,999	53	10	18,062	.60
50,000	15,202	2,622	32,176	1,931	15	4,826	25,419	1,651	314	27,384	.55

1. Federal income and social security (OASDHI) taxes.
2. Based on state and local 1978 income tax receipts which were 19% of federal income tax receipts. Does not include property tax.
3. Estimated as 6% of disposable income.
4. Post retirement taxes are on income in excess of social security benefits which are non-taxable. Retirees without social security benefits would need higher replacement ratios.

SOURCE: Preston C. Bassett, consulting actuary, President's Commission on Pension Policy, 1980.

Retirement Income Goals. The Commission believes that replacement of preretirement disposable income with income from all sources is a desirable retirement income goal. It cites problems in measuring the adequacy of income at and during retirement. In measuring adequacy at retirement, the most commonly used relative measure is wage replacement ratios. Table 16 shows the average range of replacement ratios for single persons and married couples retiring in 1980.

Absolute measures of retirement income are also needed to determine minimum adequacy for those with very low or no wage income. Such measures are also needed as standards for the years beyond the threshold of retirement when preretirement wage income is difficult to use as a standard and less relevant.

The Commission recommends the following concerning retirement income goals:

- The replacement of preretirement disposable income from all sources is a desirable retirement income goal.
- A combination of both minimum income levels and replacement rates of preretirement earnings should be used as the standard for measuring retirement income adequacy.
- The greatest emphasis should be placed on expanding pension coverage rather than providing full inflation protection to some at this time. Therefore, automatic inflation adjustments for employee pensions are encouraged but should not be required at this time.
- Further study should be given to indexed bonds.

Tax Policy. Because persons are not taxed uniformly under law, individuals have varying economic incentives to contribute to a pension plan. Table 17 shows the differing monthly pensions that would result from a $100 annual contribution, according to the tax treatment of the contribution, the earnings on the contribution and the income class of the employee before and after retirement. Current tax incentives have acted to increase pension plan participation for higher income but not for lower income individuals.

The Commission makes the following specific recommendations concerning tax policy:

- The tax treatment of employee and employer contributions to pension plans and earnings on these contributions should be the same.
- The concept of a tax credit for low and moderate income people to encourage individual retirement savings and employee contributions to plans should be given serious consideration.
- The tax treatment of savings specifically for retirement should be the same as the tax treatment of pension plans.

- Contributions to and benefits from Social Security should receive the same tax treatment as do those of other retirement plans.
- Individuals in all types of pension programs should be treated more equally regarding contributions and benefit limitations.

Treatment of Spouses. The Commission addresses the inequities of Social Security and employee pensions resulting from changing lifestyles and marital patterns. The Social Security system today entitles a wife (or husband) to a spouse benefit equal to 50% of the husband's (wife's) benefit. When one spouse dies, the law entitles the survivor to 100% of the deceased spouse's benefit. Individuals entitled to both a spouse and worker benefit receive, in effect, only the greater of the two benefits.

Some 72% of unmarried women age 65 and over in 1976 had incomes below the poverty level, compared with 15% of unmarried men and 13% of married couples.

To address the inequities of the present system, the Commission recommends:

- After an appropriate transition period, the Social Security system should use an earnings sharing approach with at least some inheritance of a deceased spouse's credits by the survivor.
- Pensions should be defined as property.

TABLE 17
EMPLOYEE'S MONTHLY PENSION (AFTER-TAX) PURCHASED WITH $100 OF ANNUAL PENSION FUND CONTRIBUTION OR WAGE INCREASES

(30-Year Work Period - 65 Retirement Age)

Average Income of Employee Before & After Retirement	After-Tax Employee Savings Invested in a Regular Savings Account	Employee Savings with Interest Tax Deferred (Employee Contributions in a Qualified Plan)	IRA, Keogh, and Qualified Plan of Tax Exempt Organization	Employer Contributions to a Qualified Pension Plan
$40,000/20,000	$36	$52	$ 89	$ 89
20,000/10,000	58	71	96	96
10,000/ 5,000	74	92	112	112
Net Income Due to Tax Deferral Relative to Taxation as Ordinary Income				
$40,000/20,000	—	$16	$ 53	$ 53
20,000/10,000	—	13	38	38
10,000/ 5,000	—	18	38	38

SOURCE: U.S. Treasury Department, November 29, 1979.

- Survivor protection should be automatic for married and divorced spouses.
- For divorced spouses, the survivor protection should be prorated based on years of pension service accrued during marriage.
- All survivors of employees who die before retirement with a vested benefit should receive either survivor benefits under the pension plan or life insurance benefits.

Universal Coverage. The Commission strongly recommends extending Social Security coverage to the 10% of U.S. workers who are not presently covered by the system.

The Commission believes that individuals who are already retired and workers eligible for immediate retirement should not be affected by any modification of a pension system caused by coordination with Social Security coverage. Social Security, if extended to government and nonprofit workers, should not replace the existing pension system. Rather, the existing system should be modified to take into account benefits available under Social Security.

The Commission strongly recommends extending Social Security coverage to all new workers not otherwise covered.

Disability Retirement. Disability insurance has several issues to be dealt with, distinct from pensions in general: benefit structure; rules and cash payments that produce work disincentives rather than support continuation of work; vast differences among programs in how readily benefits are available; important gaps in coverage; significant overlaps in coverage; replacement ratios that vary greatly within individual programs and from one program to another from less than 33% to well over 100%; difficult administrative problems in determining disability; and differing tax treatment of benefits.

The Commission is continuing its study of these issues before making recommendations.

Retirement Ages. The Commission examined the effects of having age 65 as the normal retirement age. The need to examine this retirement age results from increased longevity, demographic projections and future financing costs of retirement income programs. Changing mortality and fertility rates and the aging of the post World War II baby boom will greatly increase future obligations of Social Security funds. The cost of maintaining present retirement ages could be prohibitive, with the possibility of doubling by the year 2030. The graph on page 44 shows the effect of various retirement ages on the size of the retired population per 100 people of working age.

The Commission does not believe that the retirement age should be raised now out of recognition that there is a social contract with

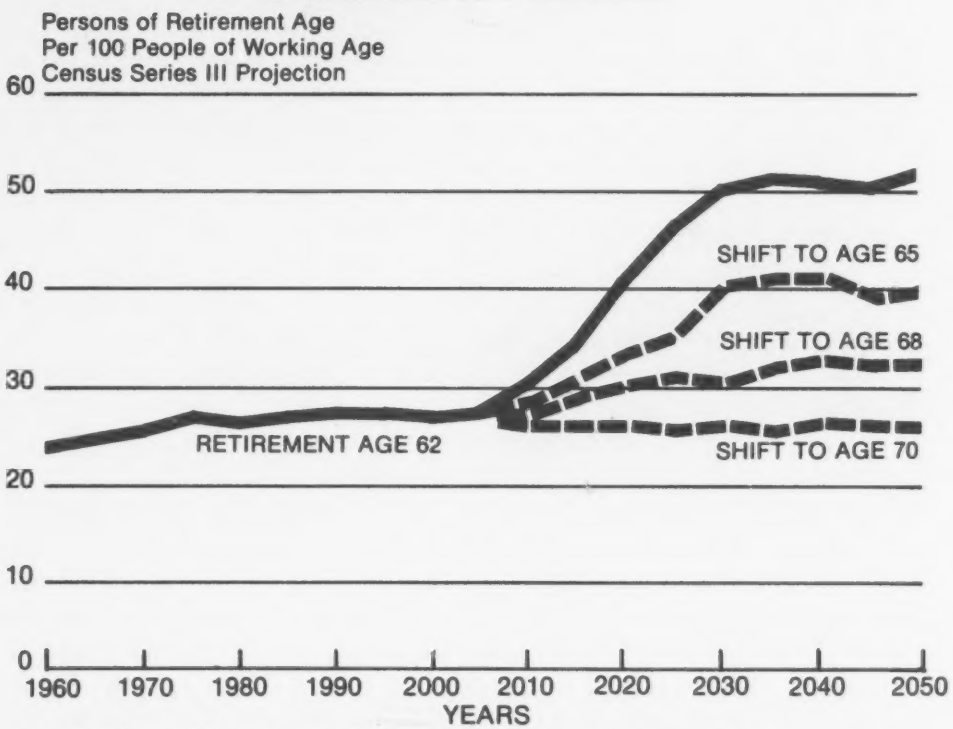
working people today who are approaching retirement, but recommends that it be raised in the future. Such a change should be measured in terms of the proportion of adult life to be spent in retirement rather than in terms of an arbitrary age.

Employment of the Older Worker. As the U.S. population ages, it may become important to encourage older workers to continue working.

The greatest disincentive to work within the context of the Social Security system is the retirement or earnings test.

- The Commission recommends that Social Security benefits be included in income subject to normal taxation, and the earnings test be eliminated. It also recommends that information on alternative work patterns be encouraged and developed through research and demonstration programs in existing Federal employment programs. Job retraining and job redesign for older workers in private industry also should be encouraged.

DEPENDENCY RATIOS



SOURCE: OMB Technical Staff Paper by Douglas Norwood.

An Interim Report: President's Commission on Pension Policy (November 1980)

The second Interim Report of the President's Commission on Pension Policy, issued in November 1980, focuses primarily on the role of Social Security in providing retirement income. The report outlines the primary concerns of the Commission and areas to which further study will be directed before the Commission's final report is issued in late February 1981.

The Retirement Income System. The Commission restates its belief in the "three-legged stool" concept of the desirability of reliance on three sources of retirement income for all persons — Social Security, private pensions and personal savings. Although the role of Social Security is to provide a floor of protection, it is meant to be supplemented by other sources of retirement income. Many retirees, however, rely primarily or solely on Social Security. Based on its recommendation that a minimum level of retirement income should be the Bureau of Labor Statistics' (BLS) intermediate budget for a retired couple (75% of that budget for single persons), some 35% of retired couples and 61% of retired single persons in 1978 had total money income below that level.

Employee Pensions. In its first Interim Report in May 1980, the Commission recommended that serious consideration be given to a universal advance-funded pension system as a tier of Social Security that would permit contracting out to pension plans that wanted to meet its standards or as a universal employee pension system with a central portability clearinghouse.

As background to its deliberations on the design and benefits of such a system, the Commission conducted a household survey to determine the extent of private and governmental pension coverage. It found that among workers age 16 and over, 48% were participating in a pension plan. When only those employees who met ERISA standards for participation were considered (over age 25, one or more years of service and working 1,000 hours a year or more), 62% were participants (Table 18 on page 46). Nonparticipants were chiefly those making less than $10,000 a year (65%).

Social Security. The Commission restates its belief that Social Security should be supplemented by other sources of retirement income, but also voices its concern that many low-income workers have no other source of retirement income and Social Security is not providing a minimally adequate level of benefits to those persons. The Commission's tentative recommendation is for earnings sharing—dividing total earnings equally between both spouses when determining Social Security benefits.

TABLE 18
PENSION COVERAGE AMONG TOTAL WORK FORCE

Age, Years on Job, Average Weekly Hours	Percent of All Workers[1]	Percentage Covered By Pensions: All Employees	Men	Women
Total	100.0%	48%	56%	39%
Under Age 25	24.2	29	34	23
Age 25 and Older	75.8	53	61	43
Less than one year on job	12.5	25	33	17
One or more years on job	63.3	61	68	51
-less than 1,000 hours/year	4.5	36	52	26
-1,000 hours/year or more	58.8	62	68	55

[1]Figures are based on May 1979 Current Population Survey data. Data in this table include private wage and salary workers and state and local government workers age 16 and over, but excludes Federal employees, the self-employed, unpaid family workers, and workers under the Railroad Retirement Board.

SOURCE: Special Tabulations of Household Survey, President's Commission on Pension Policy, October 1980.

The Commission endorses adjusting Social Security benefits to price increases but expresses the concern that the total CPI increase is not the proper index, nor would indexing benefits to wage increases be appropriate. A more appropriate measure might be a separate CPI for retired persons.

Although the Commission is concerned over the financing problems of Social Security, it rejects the value-added tax, windfall profits tax and oil and gasoline tax as unsuitable sources of financing, and recommends no further increases in the levels of wages subject to payroll taxes other than those already legislated. The Commission also rejects Social Security advanced-funding proposals in favor of a combination of increased personal savings and employee pension plan enrichments.

Coordinating Social Security with Employee Pensions. Recognizing that increased Social Security costs may force more employers to integrate their plans with Social Security, the Commission expresses concern that coordination can result in pensions that are inconsistent with national income goals. Since, under current integration rules, the lowest paid employees, who are least likely to have other sources of income to supplement Social Security, may actually be excluded from receiving any employee pension benefits, the Commission states that any expansion of employee pension plan coverage must be accompanied by a change in integration rules so that no employee is excluded from receiving plan benefits. Additionally, current integration limits may actually overstate the employer's costs of providing Social Security benefits.

As to the extent of integration at present, a Treasury Department survey of 1,200 private plans (with a high proportion of large plans) found 68% were integrated; however, plans with 25 or fewer participants were more likely to be integrated (84%) than plans with 26 or more participants (62%).

A Bankers Trust Company survey of 200 large corporate defined benefit plans found that in 1980 some 89% of plans with final pay benefit formulas were integrated, compared with 77% of plans using career average formulas.

Retirement Ages. The group endorses a future retirement age of 68, with further changes in that age as life expectancies change. It endorses a phased-in schedule beginning in 2000, with a ¼ year increase for each year thereafter until age 68 becomes the normal retirement age in 2012. Further, the Social Security Disability Insurance Program should make benefits available only until normal retirement age is reached under Social Security. Likewise, the Federal Civil Service Retirement System should adopt a retirement age policy similar to Social Security, with reduced benefits for early retirement, and private plans should be permitted under ERISA to move up their retirement ages as the Social Security retirement age is adjusted.

The Commission is also concerned that some plans, particularly military and local government plans, award retirement benefits to relatively young workers and believes that forms of compensation other than pensions may be more appropriate. For instance, some form of compensation could be available at the end of a military career to ease the transition into a second career.

Patterns of Worker Coverage by Private Pension Plans

The Bureau of the Census, as part of its May 1979 Current Population Survey (CPS), conducted a special supplemental survey on the retirement plan coverage and vesting status of employed workers age 14 and over. The survey was based upon a scientifically selected CPS sample of households designed to represent the civilian noninstitutionalized population of the United States.

The term coverage as used in the report refers to employees who have met plan eligibility requirements for membership. It excludes workers employed by firms with plans who are not participating in a plan.

Highlights of the survey of retirement plan coverage of full-time private wage and salary workers indicate that:

- Approximately 30 million employees, or 50% of the 59.7 million full-time private wage and salary workers employed in May, 1979, were covered by retirement plans.

- Over five million additional full-time workers were employed by firms providing retirement plans but excluded from participation, primarily because of failure to meet age and/or service eligibility requirements.
- Fifty-five percent of all male workers were covered by pension plans, compared to 40% of all female workers.
- The coverage rate for white workers was 50%, compared to 46% for workers of all other races.
- While slightly more than one-fifth of all workers with less than one year of tenure were covered by retirement plans, the coverage rate increased with years of service, reaching a peak of 82% for workers employed 25 or more years with the same firm.
- Coverage was very low for workers under age 25 (27%) but increased to 48% for workers age 25 to 29 and continued to increase to a high of 65% for workers age 50 to 54. Coverage

TABLE 19
WORKER COVERAGE BY PRIVATE PENSION PLANS: PERCENTAGE DISTRIBUTION OF FULL-TIME EMPLOYEES

	Number in Thousands	Percent Distribution			
		Total	Covered	Not covered	Unknown
Total	59,735	100%	50%	43%	7%
Male	38,185	100	55	38	6
Female	21,550	100	40	51	9
Union	15,431	100	78	16	6
Non-Union	42,323	100	40	53	7
White Collar	28,469	100	52	42	6
Blue Collar	30,412	100	49	42	9
Race:					
White	52,812	100	50	43	7
Other	6,921	100	46	43	11
Employed for:					
Less than five yrs.	32,325	100	33	59	8
Five yrs. or more	26,335	100	71	27	2
Size of Establishment:					
Less than 500 employees	43,670	100	42	51	7
500 or more employees	11,377	100	81	15	4

NOTE: Details may not add to totals due to nonresponse to certain questions.

SOURCE: U.S. Labor Department, Patterns of Worker Coverage by Private Pension Plans, *August 1980.*

began to decline after age 54 and dropped to 53% for workers age 60 and over.

- Almost four of five employees represented by a union were covered by a retirement plan, a proportion twice as high as the coverage rate for employees not represented by a union.
- Workers in establishments with 500 or more employees were almost 2½ times as likely to have pension coverage as workers in establishments with fewer than 100 employees.
- Jobs in high wage industries, such as communications and public utilities, mining and manufacturing, tended to have high coverage rates, while jobs in low wage industries such as retail trade and services generally had low rates of coverage.
- More than 3 of 10 noncovered male workers and more than 4 of 10 noncovered female workers were employed by small, non-unionized retail trade and service industry establishments.
- Coverage in most occupations was between 50% and 60%, with low-paid, highly-mobile service, labor and sales jobs having significantly lower coverage rates.
- Pension coverage was closely correlated with earnings. While only 10% of the workers earning less than $5,000 a year were covered, between 70% and 80% of those earning $15,000 or more annually were covered.
- Between April, 1972, when a similar survey was conducted, and May, 1979, there was virtually no change in pension coverage for full-time private workers, with coverage reported at 49% in 1972 and 50% in 1979. However, for workers above age 25, the coverage rate was more than 4 percentage points higher in 1979 compared to 1972.

The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations.

The Universal Social Security Coverage Study Group was established in 1978 by the Secretary of Health, Education and Welfare (now Health and Human Services) and charged with examining the "feasibility and desirability" of mandatory Social Security coverage for noncovered workers. Its report was issued in March of 1980.

The need to consider a mandatory coverage approach stems from five basic problems with the coverage pattern as it now exists, according to the Group's report:

1. Gaps in insurance protection exist for workers moving between jobs that are covered and jobs that are not covered by Social Security.

2. Gaps in benefit protection exist for workers in noncovered employment.
3. A few workers are exempted from paying into a redistributive program that provides proportionately more generous benefits to low-wage than to high-wage workers.
4. Participation in noncovered employment exempts part of the lifetime earnings of some workers from Social Security taxes. These workers subsequently receive a Social Security benefit—often called a windfall—that is high in proportion to the payroll tax they paid.
5. Some workers who spend most of their careers in noncovered employment also work for a short period in the covered sector without becoming fully insured under Social Security. These individuals receive no retirement benefits from Social Security based on their contributions to the program.

The Study Group's report dismissed the question of the "feasibility" of bringing noncovered government workers under Social Security, citing the fact that virtually all types of state and local employees are already covered by Social Security.

As to the desirability of mandating Social Security coverage, the Study Group considered four policy options, listed in order of desirability:

1. Extension of Social Security coverage would be the most effective way to resolve the gaps and windfalls issue. Initially, however, mandatory coverage could be partial rather than universal.
2. The second approach would be to reduce the problems of insurance gaps and windfalls without requiring Social Security coverage.
3. A third, less practical, option would be to increase voluntary coverage incentives.
4. Another approach, for which the Study Group found no support, would be to continue the status quo.

The bulk of the report provides a vast amount of quantitative information on the extent of coverage under Social Security and other public pension programs and discusses the legal, administrative and fiscal effects of the first two alternatives on Federal employee retirement programs, on state and local government employee programs and on private, nonprofit organizations.

Although the Study Group expressed preference for mandatory coverage, it stopped short of recommending that approach and pointed out that none of the alternatives solve all the problems without introducing new problems.

Social Security Financing and Benefits: Report of the 1979 Advisory Council on Social Security

In 1978, then Secretary of Health, Education and Welfare, Joseph A. Califano, Jr., appointed the fifth Advisory Council on Social Security and charged it with reviewing all aspects of the Social Security Program, with five areas to receive particular attention: financing, treatment of women and families, universal coverage, general benefit structure, and disability insurance.

Three major recommendations were made by the Advisory Council in its 1979 report:

- To change the method by which Medicare is financed from payroll taxes to specifically designated parts of personal and corporation income taxes, and to alter the schedule of payroll taxes so that old-age, survivors', and disability insurance will have sufficient revenues to pay benefits for the next 75 years.
- To alter the Social Security benefit formula so that workers with a long history of low wages will receive a benefit sufficient to keep their incomes above official poverty thresholds and so that high-wage workers will be assured a benefit that provides a more generous return on taxes they pay than they receive under current law.
- To begin to update the way in which women are treated under Social Security to take account of the increase in the female labor force and the increased divorce rate since the present structure of Social Security was developed from 1935 to 1939.

Specifics regarding these and other recommendations include the following:

- By funding Medicare from corporate and personal income taxes, the current withholding tax rate would be reduced from 6.13% each for employers and employees to 5.6%, remain at that level until 2005 but rise thereafter to 7.25% and remain there until the middle of the next century.
- General revenue payments to the Social Security trust funds should be made in periods of high unemployment if the reserves are less than about 60% of annual outlays; and the trust funds be authorized to borrow from the Treasury if reserves fall below about 3 months' payment of benefits.
- Current replacement rates for low, average and high wages provided by the revised benefit formula should be maintained in future years.
- Persons divorced after at least 10 years of marriage should be permitted to receive retirement benefits based on shared earnings.

- Aged widows or widowers should be permitted to receive benefits on the basis of the couple's combined earnings.
- One-half of Social Security benefits should be regarded as taxable income for Federal tax purposes.
- Social Security benefits should be increased semiannually whenever the CPI increases by at least 3% since the measuring period on which the previous cost-of-living adjustment was based.
- Payments of an employee's (except domestic worker's) Social Security tax by an employer should be taxed and credited as wages for Social Security purposes.
- Social Security should be extended to Federal employees either through mandatory coverage for new hirees or through a transfer of credit plan. Coverage for newly-hired state and local government employees and employees of nonprofit organizations should be made mandatory Termination of agreement providing coverage for state and local workers should not be permitted.
- The normal retirement age should be raised effective after the turn of the century.
- The maximum family benefit for a disabled worker should be set at 90% of the average of the highest five consecutive years of wage-indexed earnings. A similar limit should be placed on each family's receipt of all Federal disability benefits taken together. The Council also recommended a liberalizing of the definition of disability.

Additionally, the Advisory Council rejected Administration-offered proposals to abandon the proposed phase-out of the regular minimum benefit, abolish the lump sum death payment, reduce student benefits, change currently-insured requirements for OASI benefits, and reduce the age to which child beneficiary benefits will be paid.

A Nationwide Survey of Attitudes Toward Social Security

In support of its Congressional mandate to study the short- and long-term questions regarding Social Security, the National Commission on Social Security directed Peter D. Hart Research Associates, Inc., to develop and conduct a scientific survey of public opinion on the subject of Social Security. The survey involved personal interviews with a random sample of 1,549 adult Americans during November 1979. Retirees (or spouses of retirees) accounted for 26% of the respondents and 61% of the sample were covered by private or public pension plans.

The findings of the survey address seven broad topics: retirement attitudes; retirement income; knowledge of Social Security; satisfaction with Social Security; confidence in the future of Social Security; the level of Social Security taxes; and opinion of the Social Security Administration. Survey results relating to each topic are summarized in the following statements.

Retirement Attitudes. Although more Americans look forward to retirement than do not, they tend to have some reservations about the quality of retirement life. Most people are more concerned about not having enough money than about having enough to do in retirement.

Most Americans retire involuntarily. About two out of three of the retirees surveyed say they retired because of poor health or because of a mandatory retirement age or because they lost their jobs.

About one out of two Americans say they find early retirement (at about age 60) appealing. Early retirement is particularly appealing to blue collar workers, persons covered by pension plans, persons between the ages of 35 and 54, and persons with high family incomes (over $17,500).

Early retirement seems less appealing to persons who are retired than to those who have yet to retire.

Only one-third of Americans find the idea of postponing retirement until age 70 appealing. Four in ten persons say they would consider late retirement if they could receive significantly higher benefits as a result. In general, there is a close relationship between income and attitudes toward retirement; those who have or expect greater financial resources are generally more positive about retirement.

Retirement Income. Nine of ten non-retired Americans expect to receive Social Security in retirement, and 60% expect it to be a major source of retirement income. Among those already retired, 75% find it to be a major source of income. Only among non-retirees with family incomes over $25,000 is Social Security overshadowed by other sources of expected retirement income. About one-third of retired Americans say their income allows them to live comfortably, about one-third say it is only enough to pay monthly bills and obligations, and a slightly smaller number, 25%, say it is not enough to pay their monthly bills and obligations.

Knowledge of Social Security. Most Americans have a good working knowledge of the Social Security system. Most understand the main features of the system and its underlying philosophy, although some do not know specific details.

- Most people know that there is a relationship between the amount of Social Security benefits and the amount of previous wages and salaries.

- Most realize that Social Security is intended to supplement other retirement income rather than to serve as the sole source of income.
- Most are able to volunteer that funds for Social Security come from taxes paid by employees, and when asked directly, about two of three know that such taxes are paid by employers as well.
- About three of four know that there is no needs-test to qualify for benefits.
- Most Americans know there have been increases in both Social Security benefits and taxes over the past ten years. They tend to say that benefits have increased "somewhat" and that taxes have increased greatly during that period. They tend to anticipate similar increases in both taxes and benefits over the next ten years.
- Many are aware of non-retirement benefits provided by Social Security, such as disability and survivors' benefits and Medicare.
- About two out of three know that Social Security taxes are not set aside in individual accounts for future retirees but are used to pay benefits to current retirees.

In two areas, however, substantial numbers of Americans are misinformed.

- Most do not know that Federal employees are not covered by Social Security.
- Most are not aware that Social Security benefits increase automatically with the cost of living.

Satisfaction With Social Security. Most Americans are neither extremely satisfied nor totally dissatisfied with Social Security. Respondents' overall impressions, however, are favorable. They volunteer more advantages than disadvantages of Social Security and they tend to express a low level of objection to Social Security taxes compared to other taxes.

The most frequent complaints are about benefit levels. Although most Americans recognize that benefits are intended to supplement other sources of retirement income, most feel that Social Security alone should provide enough income to meet retirees' basic needs and obligations. Also, many Americans believe that Social Security disability and survivors' benefits are inadequate; this belief is particularly prevalent among those with low incomes who are unlikely to have other protection against those eventualities. On the other hand, there is no great dissatisfaction with the fact that the system pays higher benefits to those who have earned more and paid more in taxes. About two-thirds of Americans recognize that the system works this way, and they believe that it should.

Confidence in the Future of Social Security. Many Americans are concerned about the ability of the program to deliver future benefits at the levels now authorized. Sixty-one percent of the non-retired have little confidence that funds will be available to pay their retirement benefits. These doubts were expressed by almost three-quarters of those between ages 25 and 44. On the other hand, most Americans indicate that they expect Social Security to provide a significant part of their retirement income.

The large majority of people express basic support for Social Security. Only 19% say that, given the choice, they would leave the Social Security program. Fully 76% oppose ending the program altogether; 67% strongly oppose doing so.

Level of Social Security Taxes. In general, only about one in four Americans say that current Social Security taxes are too high, given the retirement, disability, survivors' and Medicare benefits provided by the program. Given the choice of higher Social Security taxes or lower future retirement benefits, higher taxes are selected by 63%. If the choice were between higher taxes and raising the retirement age, 36% would favor raising the age for full retirement benefits from 65 to 68. A narrow plurality (43% to 35%) would favor financing Medicare from income taxes and other Federal tax sources rather than raising Social Security taxes. When the choice is between two revenue sources to pay for benefits, pluralities favor the payroll tax over the Federal income tax (49% to 26%) and over a national sales tax (45% to 31%).

Opinion of Social Security Administration. Almost half of all adult Americans have had some contact with the Social Security Administration, and the agency receives high marks from these people in terms of efficiency, service, and courtesy. Respondents tend to rate the Social Security system the same as or better than the other government agencies with which they have had contact.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of $67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semiannually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other consecutive 12-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed to some future date.

Defined Benefit Plan—A pension plan stating either (1) the benefits to be received by employees after retirement or (2) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—Retirement of a participant prior to the normal retirement date, usually with a reduced amount of annuity. Early retirement is generally allowed at any time during a period of 5 to 10 years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age, such as 25, or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets; renders investment advice for a fee, or has authority or responsibility to do so; or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, nonvested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit sharing plan, such amounts may be allocated to the accounts of remaining participants.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment

of the plan, or at the date of the latest liberalization. The maximum annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans must integrate so that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other. (See *Contingent Annuity Option.*)

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less. This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any

period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation group.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The Federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons controlling the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the accumulated funds. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company which is separate and apart from its general assets and is generally used for investment of pension assets in common stocks.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account (usually invested primarily in common stocks).

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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Chadwick, William J. and Lawrence J. Hass. *The Annotated Fiduciary: Materials on Fiduciary Responsibility and Prohibited Transactions Under ERISA.* Brookfield, WI: International Foundation of Employee Benefit Plans, Inc., 1978. 350p. Includes materials for plan administration under ERISA's fiduciary and prohibited transaction provisions.

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Designing a Corporate Retirement Plan to Meet the Requirements of the Employee Retirement Income Security Act of 1974. Chicago: Charles D. Spencer & Associates, Inc., 1975. 48p. Illustrates the basic principles behind establishing a retirement program. Also discusses advantages of defined benefit and defined contribution plans.

The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations. Washington, DC: Universal Social Security Coverage Study Group, March 1980. 276p. Analyzes the feasibility and desirability of mandatory Social Security coverage for Federal, State and local employees and outlines specific alternatives to the present system.

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Employee-Retirement Systems of State and Local Governments. U.S. Department of Commerce, Bureau of the Census. Washington, DC: U.S. Government Printing Office, 1978. *Census of Governments*, V. 6, No. 1. 55p.

ERISA and Its Interpretations, Until May 30, 1976. Text of Laws of Official Interpretations, with Commerce Clearinghouse Index. Chicago: Commerce Clearing House, 1976. 442p. Includes special reliance procedures and amendments affecting ERISA.

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Funding of State and Local Government Pension Plans: A National Problem. Washington, DC: U.S. General Accounting Office, August 30, 1979. 125p. Reports GAO audit of 72 state and local government plans, revealing that the majority did not meet the funding standards imposed on private plans by ERISA.

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Greenough, William C. and Francis P. King. *Pension Plans and Public Policy*. New York: Columbia University Press, 1976. 336p. Examines pension plans, both public and private; describes how these plans interrelate with the Social Security system and predicts their future in light of ERISA.

Guidebook to Pension Planning. Chicago, IL: Commerce Clearing House, 1979. 424p. Deals with legislation in the field of retirement plans, basic bookkeeping and record keeping procedures and relationships between employers and pension professionals.

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Kordus, Clause L., et al. *Trustees Handbook.* 3rd. ed. Brookfield, WI: International Foundation of Employee Benefit Plans, 1980. 539p. Basic handbook discussing topics of importance to plan administrators.

Large Corporate Pension Funds: 1980 Report to Participants. Greenwich, CT: Greenwich Research Associates, Inc., 1980. 78p. For more than 1,000 corporate pension plans, provides 1979 data on such topics as asset mix, investment policies, management, and actuarial assumptions of the plans.

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_____. *Trade Union Pension Systems.* New York: Industrial Relations Counselors, Inc., 1932. 205p. An early actuarial study of industrial and trade union pension plans.

Leo, Mario; Preston C. Bassett; and Ernest S. Kachline. *Financial Aspects of Private Pension Plans.* New York: Financial Executives Research Foundation, 1975. 283p. Designed to help executives understand financial aspects of private pension plans. Covers pension plan costs, investments results, actuarial valuations and reports, auditing pension fund assets, Social Security and government regulations, and dealing with outside experts.

Levin, Noel Arnold. *ERISA and Labor-Management Benefit Funds.* New York: Practicing Law Institute, 1975. 359p. Covers history of employee benefit trusts, how to create and operate one, the trustees' obligations and compliance with ERISA. A supplement provides a Table of Cases and technical advice on actuarial and accounting items.

_____; Mayer Siegel; and Harry V. Lamon. *The Pension Fiduciary: Legal Duties and Responsibilities Under Pension Reform.* New York: New York Law Journal Press, 1975. 359p. Presents a collection of articles and excerpts of ERISA. Outlines of relevant materials relating to legal duties and responsibilities of the pension fiduciary under ERISA.

Life Insurance Fact Book. Washington, DC: American Council of Life Insurance. Annual. 130p. Gives basic statistics of life insurance and pensions with charts, tables and graphs. Historical data on a variety of life insurance topics are included.

McDonald, Maurice E. *Reciprocity Among Private Multiemployer Pension Plans.* Homewood, IL: Richard D. Irwin, Inc., 1975. 309p. Examines the concept and application of pension reciprocity. Includes results of a survey of private multiemployer pension plans conducted to view the potential of pension reciprocity.

McGill, Dan M. *Employer Guarantee of Pension Benefits.* Homewood, IL: Richard D. Irwin, Inc. for the Pension Research Council, 1974. 59p. Reports a study of the extent to which sponsors of single-employer pension plans had voluntarily assumed a corporate obligation to make good on accrued benefits of a pension plan that might be terminated and to ascertain the attitudes of corporate managements generaliy toward the concept of employer responsibility for accrued pension credit.

_____. *Fundamentals of Private Pensions.* 3rd ed. Homewood, IL: Richard D. Irwin, Inc. for the Pension Research Council, 1975. 520p. This edition is completely updated and includes full explanations of new concepts and terminology; new material on funding instruments, equity and cost of living annuities; and material on creating, installing and operating a private pension plan.

_____. *Pensions: Problems and Trends.* S.S. Huebner Foundation for Insurance Education Lectures. Homewood, IL: Richard D. Irwin, Inc., 1955. 224p. Examines the forces underlying the private pension movement, including the interrelationship of private and public pensions and the characteristics, trends, problems and implications of private pensions.

_____. *Preservation of Pension Benefit Rights.* Homewood, IL: Richard D. Irwin, Inc., 1972. 382p. Vesting and reciprocity are examined under present conditions, with the conclusion that vesting is the ultimate means of preserving benefit credits.

Melone, Joseph J. *Collectively Bargaining Multi-Employer Pension Plans.* Homewood, IL: Richard D. Irwin, Inc. for the Pension Research Council, 1963. 210p. Describes the complex nature of private negotiated plans and the problems and implications to the private pension field, to unions and society—a thorough study of all aspects—financial, actuarial, administrative, legal and regulatory.

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Munch, Gerhard A. *Federal Taxation of Insured Pensions.* New York: Mathew Bender & Co., Inc., n.d. Looseleaf.

Munnell, Alicia H. *The Future of Social Security.* Washington, DC: The Brookings Institution, 1977. 190p. Discusses Social Security in relation to other sources of retirement income and clarifies the system's financing, benefit structure and goals.

Myers, Robert J. *Social Security.* Homewood, IL: Richard D. Irwin, Inc. for the McCahan Foundation, 1975. 691p. Describes thoroughly and factually the various social insurance and allied programs in the U.S., with greatest emphasis on Social Security. The author served as chief actuary of the Social Security Administration from 1947 to 1970.

A Nationwide Survey of Attitudes Toward Social Security. Washington, DC: National Commission on Social Security, 1980. v.p. Reports the results of a survey of adult Americans on attitudes toward retirement; expected sources of retirement income; knowledge of and satisfaction with Social Security; and confidence in the future of Social Security.

1978 Survey of Changes in Normal Retirement Benefits. New York: Bankers Trust Company, 1978. 12p. Update of normal retirement benefits discussed in *1975 Study of Corporate Pension Plans.* Studies employee retirement programs established or amended from 1965-1970. Nine previous editions, *Study of Industrial Retirement Plans,* covered 1943-1965.

1977 Study of Employee Savings and Thrift Plans. New York: Bankers Trust Company, 1977. 319p. Analyzes trends and practices of tax-qualified savings plans, including most plans of large corporations and many of medium and small firms.

Options for Federal Civil Service Retirement: An Analysis of Costs and Benefit Provisions. U.S. Congress, Congressional Budget Office. Washington, DC: U.S. Government Printing Office, 1978. 41p. The report provides data for consideration of future budgetary options by Congress but makes no recommendations.

Patterns of Worker Coverage by Private Pension Plans. Washington, DC: Office of Pension and Welfare Benefit Programs, U.S. Department of Labor, 1980. 22p. Reports 1979 survey results on coverage by private pension plans according to demographic characteristics of full-time workers.

The Pension Game: American Pension System from the Viewpoint of the Average Woman. Task Force on Sex Discrimination, Civil Rights Division, U.S. Department of Justice. Washington, DC: U.S. Government Printing Office, 1979. 78p. Discusses the structure of pension benefits for working women and for nonworking wives, the demographics on women and how both of these factors affect the pension benefits women receive.

Pension Reform Act of 1974—Law and Explanation. Chicago: Commerce Clearing House, 1974. 352p. Provides full text of ERISA with an explanation of the pension reforms by the Commerce Clearing House editorial staff.

Pension Task Force Report on Public Employee Retirement Systems. U.S. Congress, House Committee on Education and Labor, 95th Congress, 2nd session. Washington, DC: U.S. Government Printing Office, 1978. 858p. Mandated under ERISA, analyzes existing levels of participating, vesting, funding, fiduciary standards for public pension plans, and includes recommendations for Federal regulation of state and local plans.

Reap, Donald J. *Why a Profit Sharing Plan Should Include Life Insurance.* Rockville Centre, NY: Farnsworth, 1975. 36p. Discusses why and how life insurance should be added to a profit sharing plan. Includes amendment forms.

Schulz, James, et al. *Providing Adequate Retirement Income: Pension Reform in the United States and Abroad.* Hanover, NH: University Press of New England, 1974. 330p. Reviews current economic status of elderly persons in the U.S. and projects future income and alternate policies. In addition to the U.S., it reports on old-age pension reform in four countries widely regarded as innovators in the field — Sweden, the Federal Republic of Germany, Belgium and Canada.

Should Pension Assets Be Managed for Social/Political Purposes? Washington, DC: Employee Benefit Research Institute, 1980. 381p. Primarily a compilation of materials related to the issue of social/political pension investment.

Snyder, Bernhard R., ed. *Guide to Pension and Profit Sharing Plans Under the Employee Retirement Income Security Act of 1974.* Rev. ed. Rockville Centre, NY: Farnsworth, 1975. 120p. Question and answer style, gives practical implications of pensions in layman's language. Revised to reflect ERISA.

Social Security Financing and Benefits. Washington, DC: Advisory Council on Social Security, 1979. 402p. Reports 1979 recommendations of the Council on the financing of Social Security and its benefit structure.

Social Security Programs Throughout the World. U.S. Department of Health, Education and Welfare, Social Security Administration, Office of Research and Statistics. Washington, DC: U.S. Government Printing Office, 1978. 259p. Periodically issued since 1937, the report highlights the principal features of Social Security systems on an international basis.

Spurr, Basil H. *Elements of Insured Pension Plans.* Rev. ed. Don Mills, Ontario, Canada: Institute of Chartered Life Underwriters of Canada, 1974. 270p. Technical background is provided on insured pension plans in Canada.

Srb, Jozetta A. *Communicating Employee Benefits.* Ithaca, NY: Cornell Unviersity, NYSILLR, 1971. 41p. This is a background report on practices and problems in communicating welfare and pension benefits.

Stoeber, Edward A. *Pension Reform Act Explained: New Guidelines for Corporate, Keogh, and Individual Retirement Plans.* 2nd ed. Cincinnati, OH: The National Underwriter, 1976. 278p. Explains ERISA and includes a comparison chart of old provisions with the new and key sections of the IRS code with explanations.

Tilove, Robert. *Public Employee Pension Funds: A Twentieth Century Fund Report.* New York: Columbia University, 1976. 384p. Explores major patterns and variations of public pension plans in the context of collective bargaining. Offers proposals for integration of public pension plans with the Social Security system.

Ture, Norman B. and Barbara A. Fields. *The Future of Private Pension Plans.* Washington, DC: Amercian Enterprise Institute for Public Policy Research, 1976. 128p. Covers challenges the system will face from expanding Social Security, pension reform and inflation.

PERIODICALS: A SELECTION OF MAGAZINES WHICH OFTEN INCLUDE ARTICLES ON PENSIONS

Across the Board
Best's Review: Life/Health
BNA Pension Reporter
Business Insurance
Employee Benefit Plan Review
Employee Benefits Journal
Financial Analysts Journal
Institutional Investor
Monthly Labor Review
Pension World
Pensions and Investments
Social Security Bulletin
SEC Monthly
Statistical Review

WORKING PAPERS OF THE PRESIDENT'S COMMISSION ON PENSION POLICY

The following working papers are available from the Superintendent of Documents, Washington, D.C. 20402 or the National Technical Information Service, U.S. Department of Commerce, Springfield, Virginia 22161. NTIS also has microfiche available for $3.50 for each title. (Numbers in parenthesis refer to Superintendent of Documents numbers; NTIS reference numbers are prefixed by PB.)

- *Private Pensions and Capital Information,* September 1979 (040-000-00413-1), $2.25; PB 80 176514, $5.
- *Social Security and Capital Formation; The Funding Controversy,* September 1979 (040-000-00414-9), $1.75; PB 80 176522, $5.
- *Technical Paper: The Funding Issues and Modern Growth Theory,* September 1979 (040-000-00415-7), $3.25; PB 80 176506, $6.

- *The Use of Pension Fund Capital: Its Social and Economic Implications — Some Background Issues,* November 1979 (040-000-00416-5), $1.50; PB 80 176498, $6.
- *Employment of Older Workers; Disincentives and Incentives,* April 1980 (040-000-00425-4), $3.50.
- *Varieties of Retirement Ages,* November 1979 (040-000-00417-3), $4.75; PB 80 176548, $10.
- *Retirement Income Goals,* March 1980 (040-000-00422-0), $3.50; PB 80 176530, $7.
- *Demographic Shifts and Projections; the Implications for the Pension System,* August 1979 (040-000-00412-2), $2.50.
- *An International Comparison of Pension Systems,* March 1980 (040-000-00421-1), $4; PB 80 176480, $8.
- *Working Women, Marriage, and Retirement,* July 1980.
- *Income of the Retired, Levels and Sources,* October 1980.
- *In-Kind Benefit Programs and Retirement Income,* October 1980.
- *Income Security Programs, Past, Present and Future,* October 1980.
- *Non-traditional Investment of Pension Funds—A Brief Overview of the Antitrust Question,* December 1980.

APPENDIX
THE 1974 PENSION REFORM LAW

The Employee Retirement Income Security Act of 1974 ("ERISA") was signed into law on Labor Day, 1974. Under ERISA, an employer is not required to set up an employee pension benefit plan ("pension plan"), but when an employer establishes or maintains a pension plan, it does set standards with which the employer must comply. ERISA provides tax incentives to encourage pension savings by self-employed individuals and their employees, and by individual workers whose employers do not have retirement plans.

The Major Provisions

ERISA's major provisions include:

Participation: Employees who reach age 25, or who have one year's employment, whichever is later, must be eligible to participate in any pension plan. Pension plans with full and immediate vesting may require three years of employment as a prerequisite to participation.

Employees with less than 1,000 hours of employment service during the requisite twelve-month period need not be credited with a year of service for purposes of the eligibility rules.

Vesting: A plan must generally meet one of three alternative minimum vesting formulas with respect to allowed benefits derived from employer contributions.

1. Ten-Year Service Rule—Total vesting after 10 years of service.
2. Graded 15-Year Service Rule—Vesting of 25% after five years of service, increasing 5% each year for the next five years and by 10% for the following five years, resulting in fully vested rights after 15 years.
3. Rule of 45-50% vesting when age and length of service totals 45 years with a minimum of five years of service, or, if earlier, after 10 years of service, regardless of age. Vesting is then increased 10% a year in each of the next five years so that full vesting is attained at the end of that five-year period.

Because these are minimum standards, a plan may provide vesting at a faster rate. In addition, an employee's rights to accrued benefits derived from his own contributions must always be nonforfeitable. Finally, a "year of service" for purposes of vesting is when an employee works 1,000 hours or more during a requisite twelve-month period.

Joint and Survivors Annuity Requirement: All participants must have the option of a continuing pension benefit to a spouse if the retired employee dies before his or her spouse. Employees who have retired or who have reached normal retirement age are assumed to have chosen the joint and survivor annuity option unless they have specifically rejected it in writing within a reasonable period of time prior to retirement. The benefit provided the surviving spouse—married to the employee throughout the one-year period immediately preceding the employee's death—must be at least 50% of the employee's pension. The employee's pension may be reduced to meet the cost of the option. If a plan provides for early retirement, the employee who continues to work after becoming eligible therefor must have the option to provide for a survivor benefit in the case of death before retirement.

Funding Standards: Minimum guidelines are established for funding of pension benefits. Annual minimum contributions to pension plans must be sufficient to meet both the normal costs of the plans and to amortize past service liabilities over no more than 30 years (40 years for multi-employer plans). Experience gains and losses are to be amortized over no more than 15 years for single-employer plans (20 years for multi-employer plans.)

Portability Provisions: An employee changing jobs may defer tax payment on a lump sum distribution of vested pension benefits, if within 60 days of receipt, he or she transfers and invests the distribution in a tax-qualified individual retirement annuity or account, or deposits it in a new employer's qualified retirement plan. ERISA does not require any specific portability provisions from plan to plan.

Plan Termination Insurance: A Federal insurance facility, the Pension Benefit Guaranty Corporation (PBGC) guarantees that participants in covered defined benefit pension plans will receive their vested benefits subject to certain limitations. However, PBGC does not cover profit-sharing, stock bonus, money-purchase and other types of defined contribution plans. Premium payments for the insurance are assessed on covered plans per participant (currently $2.60 per participant in single-employer plans and $1.40 per participant in multi-employer plans).

Fiduciary Standards: ERISA establishes Federal fiduciary standards, imposing strict responsibilities on plan fiduciaries. A plan fiduciary as defined in the law includes any trustee, plan administrator, investment advisor or any other person who has discretionary control, authority or responsibility in the management of the plan or its assets. Fiduciaries are required to perform their duties solely in the interest of the plan participants and their beneficiaries and according to a "prudent man" rule as defined in the pension law. The rule

provides that a fiduciary, in part, must discharge his duties "... with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use ...." Certain types of conduct and transactions are expressly prohibited, unless specific exemptions are granted by the U.S. Labor and Treasury Departments. Unless a plan is fully insured, funds set aside to provide benefits must be held in trust and used only to provide benefits and pay the necessary costs of running the plan.

Jurisdiction: The Labor and Treasury Departments share jurisdiction under ERISA. The Treasury Department has primary jurisdiction over minimum participation, vesting and funding standards, and the Labor Department has primary jurisdiction over fiduciary responsibility and prohibited transaction provisions.

Reporting and Disclosure Requirements: Pension and welfare benefit programs are required to disclose to plan participants and their beneficiaries and report to the Federal government information on their plan operations and financial condition. A plan booklet providing a reasonably comprehensive summary of important plan provisions, written so it is understandable by the average plan participant, must be provided to each participant and beneficiary. An updated booklet must be provided to each plan participant every five years if there have been amendments to the plan; otherwise a new booklet must be provided every 10 years. The plan administrator must make an annual report on the plan's financial condition to the Federal government. This report, which is filed with the Internal Revenue Service (IRS), serves as a combined report to the IRS, the Labor Department and the PBGC. At employment termination, pension plan participants must receive a statement indicating their vested benefits, and how and where they can be claimed. Also a report on vested terminated employees must be filed with the IRS. Steps have been taken to reduce ERISA paperwork, particularly for small businesses sponsoring employee benefit plans. For example, insured welfare plans with less than 100 participants are relieved of many of the reporting requirements.

Pension Limitations: Limitations are imposed on the benefits and contributions which may be provided to participants under tax-qualified corporate pension and profit-sharing plans. Under a qualified defined benefit pension plan, the maximum annual pension is 100% of final average compensation or, if less, $75,000 (indexed to the cost of living). The maximum may be payable as early as age 55. Under a defined contribution plan, limitations on contributions are generally expressed as an amount equal to 25% of compensation or, if less, $25,000 (indexed to the cost of living). The maximum benefit or

contribution is subject to annual adjustment for cost of living increments under Treasury regulations. (For calendar year 1980, the ERISA maximum was $110,625 for defined benefit plans and $36,875 for defined contribution plans.)

Individual Incentives: Self-employed persons may now deduct up to $7,500 a year (formerly $2,500) on the tax returns or, if less, 15% of earned income for amounts placed in qualified retirement plans (H.R. 10 plans) on their own behalf.)

Workers not covered by a retirement plan where they are employed may make tax-deferred contributions of 15% of earned income up to $1,500 per year to an individual retirement account or annuity (IRA). Beginning in 1977, if a nonemployed spouse is covered, the maximum IRA contribution limit is increased to $1,750.

Under the Revenue Act of 1978, regardless of whether an employee participates in a retirement plan, employers are allowed to contribute the lesser of $7,500 or 15% of compensation to an employee IRA if the contributions are made under a definite, written allocation formula which is nondiscriminatory and if the employee's right to the contributions is 100% vested. Additionally, if the employer contributes less than $1,500—the maximum amount an employee may be permitted to contribute to his own IRA—the employee (to the extent he or she is eligible to participate in an IRA if not participating under the simplified pension plan program) may make up the difference between the employer's contribution and the maximum allowable employee contribution with his or her own deductible contribution.

Funds under H.R. 10 plans or individual retirement account plans may be placed with a life insurance company, a bank, a mutual fund or in certain special government bonds. There are penalties and an immediate tax liability if funds are withdrawn prematurely under these individual incentive programs.